

VZCZCXRO9542
RR RUEHMA RUEHPA
DE RUEHOU #0394/01 1301118
ZNR UUUUU ZZH
R 091118Z MAY 08
FM AMEMBASSY OUAGADOUGOU
TO RUEHC/SECSTATE WASHDC 3660
INFO RUEHRC/USDA FAS WASHDC 0050
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE WASHINGTON DC
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 03 OUAGADOUGOU 000394

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SUBJECT: BURKINA FASO: GOVERNMENT CONTINUES TO TOUT SAMANDENI DAM
AMID CRITICISM THAT PROJECT WON'T HOLD WATER

REF: Ouagadougou 237

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1. Key Points:

- In earl 2008, the Government of Burkina Faso (GOBF) annouced that it had secured financing for the long-aticipated Samandeni dam and that construction woud begin in 2009. With a projected storage capacity of 1,050 million cubic meters, the Samandeni would be Burkina Faso's third largest multipurpose dam.
- Despite government optimism, many critics, including Prime Minister Zongo, point to two previous projects, at Bagre and Kompienga, as proof that dams do not guarantee economic success for surrounding communities.
- In an effort to counter growing criticism about the cost of Samandeni, Government proponents point to numerous potential economic benefits including a free trade zone, increased agricultural development, and tourism potential.

2. Key Judgments:

- With a price tag of 281 billion CFA (US 672 million), the Samandeni dam is one of the most ambitious projects ever undertaken by Burkina Faso. Unable to justify this considerable cost to Asian aid agencies, the GOBF turned primarily to Middle Eastern development funds, claiming that completion of this project was an important milestone in meeting its Millennium Development Goals.
- Many detractors believe that the dam is an ill-conceived attempt to pacify growing criticism that the GOBF has ignored the economic well-being of the nation's southwestern region.
- Opponents continue to question the return on investment of a 22.6 meter high dam that could potentially irrigate 21,000 hectares (ha), but will only irrigate 1,500 ha during phase one of its implementation.

End Key Points and Key Judgments.

With Financiers on Board, Samandeni is a Step Closer

3. Several weeks prior to his departure from office (reftel), then Minister of Agriculture Salif Diallo confirmed in the daily newspaper "L'Observateur Paalga" that the GOBF had secured necessary funding for construction of the Samandeni dam, installation of a hydro-electrical plant, and irrigation of the first 1,500 ha. The three-and-a-half year, 281 billion CFA (US 672 million) construction project is scheduled to begin in May 2009.

¶4. The annual "Day of the Farmer" was held at the future site of Samandeni in February, with President Compaore officially breaking ground driving a "Caterpillar" earth mover. The site is in the southwestern province of Houet, approximately 50 km from Bobo Dioulasso, the second largest city in Burkina Faso. Located at the confluence of two tributaries of the Mouhoun River, Samandeni will be 15 meters deep and have a projected capacity of 5.05 billion cubic meters. Upon completion, the Samandeni will be the third largest dam in Burkina Faso, just behind Kompienga (2,000 million cubic meters) and Bagre (1,700 million cubic meters). The 22.6 meter high dam could potentially irrigate 21,000 ha, but plans for the first-phase call for development of only 1,500 ha.

¶5. The idea to construct a hydro-agricultural/hydro-electrical dam in Samandeni first took root in 1976 feasibility studies conducted by the Autorite pour l'Amenagement des Vallees des Volta (Volta Valley Authority), an agency designed to oversee immigration into the Volta River Basin. Despite the Government's keen interest in the project, successive attempts to secure financing in collaboration with cooperation agencies from Korea (1984), China (1990), and Japan (1994) were unsuccessful.

¶6. Convinced of the importance of the project, the GOBF recommenced efforts to secure funding in early 2005, citing the dam's importance in the nation's fight against poverty and its potential contribution towards Millennium Development Goals. GOBF engaged Arab banks and development organizations and in 2006, engaged the Millennium Challenge Corporation. A portion of the project, irrigation work downstream of the dam, was part of the proposal presented to the MCC for inclusion in the MCC compact. Subsequent MCC due diligence pointed to many issues related to social planning, donor coordination, and timing and sequencing of project completion. MCC informed the GOBF in 2007 that the MCC would not be able to fund any portion of the Samandeni project.

¶7. The GOBF was finally able to find 20-30 year loans with

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concessional terms for the entire project. More than 30 years after its conception, the National Assembly ratified 10 loan agreements in late 2007 with the following eight financial institutions: the West African Development Bank (BOAD); Islamic Development Bank (IBD); ECOWAS Bank for Investment and Development (EBID), Saudi Development Fund, Kuwait Fund for Arab Economic Development (KFAED); Arab Bank for Economic Development in Africa (ABEDA), OPEC Fund, and Abu Dhabi Development Fund.

GOBF Continues its Hard Sell of the Samandeni

¶7. During his time in office, former Minister Diallo repeatedly justified his pet project by touting cost-benefit analyses in the dam's feasibility studies which indicate a possible return on investment of 8-17 percent. According to the GOBF, the associated hydro-agricultural project could have a significant economic impact with an estimated annual production of 750,000 tons of agricultural products; 1,200 tons of fish through traditional fishing, and 500 tons of fish through aquaculture. The project also includes a hydro-electrical component: a 16 gigawatt per hour (GWH) power station that could provide affordable electricity.

¶8. The GOBF believes that the lure of lower cost electricity would entice an estimated 100 new factories to a free trade zone surrounding the dam. The GOBF also claims that the project would be equitably managed so that tillable land could be made available both to small-scale farmers for cultivation of rice, maize and tomatoes, and agro-businessmen for large-scale production of sugar cane, citrus fruits, pawpaw, bananas, and pineapples. The dam is not expected to have any impact on cotton production. Dam proponents have also cited the 150 sq km size of the dam, which makes it a veritable lake that could be used for water sports and tourism. Among probable investors in the free trade zone is the U.S. company, Continental Eagle, which intends to locate one or more plants in the zone that will produce bio-diesel from cotton seed.

¶9. In an attempt to further leverage the project's perceived financial benefits, the GOBF has opted for a mixture of heavy

machinery and local labor crews to construct the dam. The GOBF estimates that this approach could lead to the creation of 164,850 jobs and additional income of 115 billion franc CFA (US 275 million) to the local economy.

¶10. Despite his continued endorsement of the Samandeni, Diallo conceded that before construction could begin, the GOBF would have to deal with an additional complication: relocation of an estimated 12,000-14,000 people from eight villages: Diefourma, Sinfra, Nabolodiassa, Mangafesso, Banakorosso, Kokoro, Sabina and Soungalodaga. In addition to construction costs, 2.5 billion francs CFA (US 5.9 million) would be required to compensate villagers for the loss of their homes. To make the move more attractive to the displaced populations, the GOBF promised to build schools and health centers in the new villages.

Criticism Mounts as Construction Plans Take Shape

¶11. In the face of mounting criticism, the GOBF continues to stress the potential economic benefits for Bobo Dioulasso and the surrounding areas. This optimism, however, has been greeted with skepticism by members of the press. The opposition newspaper "L'Independent" recently opined that large-scale dams were not a panacea for agricultural problems in Burkina Faso and even likened the construction of the Samandeni to an "ill-conceived utopia." In subsequent publications, the newspaper added that the Samandeni had all the makings of a political deal used by President Blaise Compaore to pacify dissatisfaction in the southwest.

¶12. Other press reports echoed the criticism of "L'Independent" by cautioning against government optimism and commenting on the mitigated success of previous large-scale dams in Burkina Faso. In February, the newspaper "L'Observateur Paalga" recalled Sourou, a water project in the northwest, had originally been touted as a boon for agricultural and economic development, but had fallen far short of its goals because of gross mismanagement. "L'Independent" offered a more colorful criticism when it referred to the Sourou as "a dream abandoned like a dead white elephant on the northwestern plains."

¶13. The newspaper "L'Independent" recently concluded that the success of the Samandeni was an equation with several unknown factors. One key element is the limited profit potential for businesses in the free trade zone because they will have to compete

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with cheaper counterfeits. Detractors cite the recent bankruptcy of several large companies including SAVANA (fruit juice), SONACOR (rice), and SOBFEL (fruit and vegetable processing). Many blame their demise on corrupt customs officials who look the other way while foreign counterfeits entered the country. Critics maintain that unless the Government deals with existing market inequities caused by corruption, the success of this huge investment will be jeopardized.

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